



CITY AUDITOR'S OFFICE

Capital Projects: Project Management and Allocated Charges

September 8, 2017

AUDIT REPORT NO. 1710

CITY COUNCIL

Mayor W.J. "Jim" Lane
Vice Mayor Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Guy Phillips
David N. Smith



September 8, 2017

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Capital Projects: Project Management and Allocated Charges*, which was included on the Council-approved FY 2016/17 Audit Plan as an audit of capital project overhead charges.

In FY 2016/17, the City spent more than \$118 million for capital projects, of which \$53 million was managed by the Capital Project Management (CPM) department. In addition to design and construction costs, capital projects generally are charged for the City's project management and inspection services as well as some other services, such as Budget and Accounting. For FY 2016/17, these charges represented 7.5% of total CIP expenditures but the impact on individual projects varies widely, ranging from less than 1% to more than 50%.

We found that CPM staffing levels and performance goals should be reevaluated and project payroll charge detail provided to the client departments. In addition, the capital project charges could be more equitably assessed and accurately budgeted for individual projects.

We appreciate the cooperation and assistance of the Capital Project Management department and the City Treasurer's budget staff during the course of this audit. If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker". The signature is fluid and cursive.

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Kyla Anderson, CIA, CLEA - Sr. Auditor
Brad Hubert, CIA - Sr. Auditor

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AUDIT HIGHLIGHTS

Capital Projects: Project Management and Allocated Charges

September 8, 2017

Audit Report No. 1710

WHY WE DID THIS AUDIT

This audit of *Capital Projects: Project Management and Allocated Charges* was included on the City Council-approved fiscal year (FY) 2016/17 Audit Plan as an audit of capital project overhead charges.

The audit objective was to assess the methodology for and accuracy of charges assessed to capital projects for overhead costs.

BACKGROUND

The Capital Project Management (CPM) department in the Public Works Division provides project management, design, engineering, and inspection of projects in the City's capital improvement plan (CIP).

Overhead costs include four components:

- Direct-charged payroll expenses are based upon hours that CPM or department staff recorded in the timekeeping system for individual projects.
- CPM Allocation is calculated monthly using the direct-charged hours and is used to pay CPM departmental costs and salaries for positions such as those that cannot be easily tracked to specific projects.
- CIP Allocation is charged quarterly to all capital projects and is based on project expenditures. The funds are used to offset salaries for staff that provide support to capital projects including certain City Treasurer positions.
- Stormwater Allocation is charged monthly to stormwater projects and equals 15% of the Stormwater department salary costs.

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WHAT WE FOUND

Staffing levels and performance goals should be reevaluated and payroll charge detail provided to CPM clients.

Since FY 2010/11, CIP Expenditures have decreased by almost half; however, CPM staffing has not been similarly adjusted. CPM has not formalized or evaluated its direct-bill goal for project management staff time charged directly to projects. The CPM efficiency measure in the budget book only reflects a portion of CPM project costs. Client departments are not provided CPM payroll detail for individual projects.

Capital project overhead could be more equitably assessed and accurately budgeted.

The CPM allocation would be more equitable if calculated annually rather than monthly. The CIP allocation is not updated as staff vacancies or salary changes occur. Also, because it is based on expenditures, charges may not reflect the level of work required on projects. Finally, actual direct staff costs, CPM and CIP allocations often vary significantly from the budget assumptions.

WHAT WE RECOMMEND

We recommend that:

- The City Engineer review CPM staffing levels in relation to CIP expenditures, formalize and evaluate the goal for capital project management time, include all CPM costs in the budget book performance measure and provide client departments with payroll detail by project.
- The City Engineer and CIP Coordinator estimate overhead costs for the fiscal year and how these costs would be allocated equitably to individual projects in proportion to the staff level involved. Adjusting entries can then be made at the end of the fiscal year in order to ensure equitability and that actual costs have been recovered.

MANAGEMENT RESPONSE

The CPM department and the City Treasurer's Office generally agreed with the audit recommendations

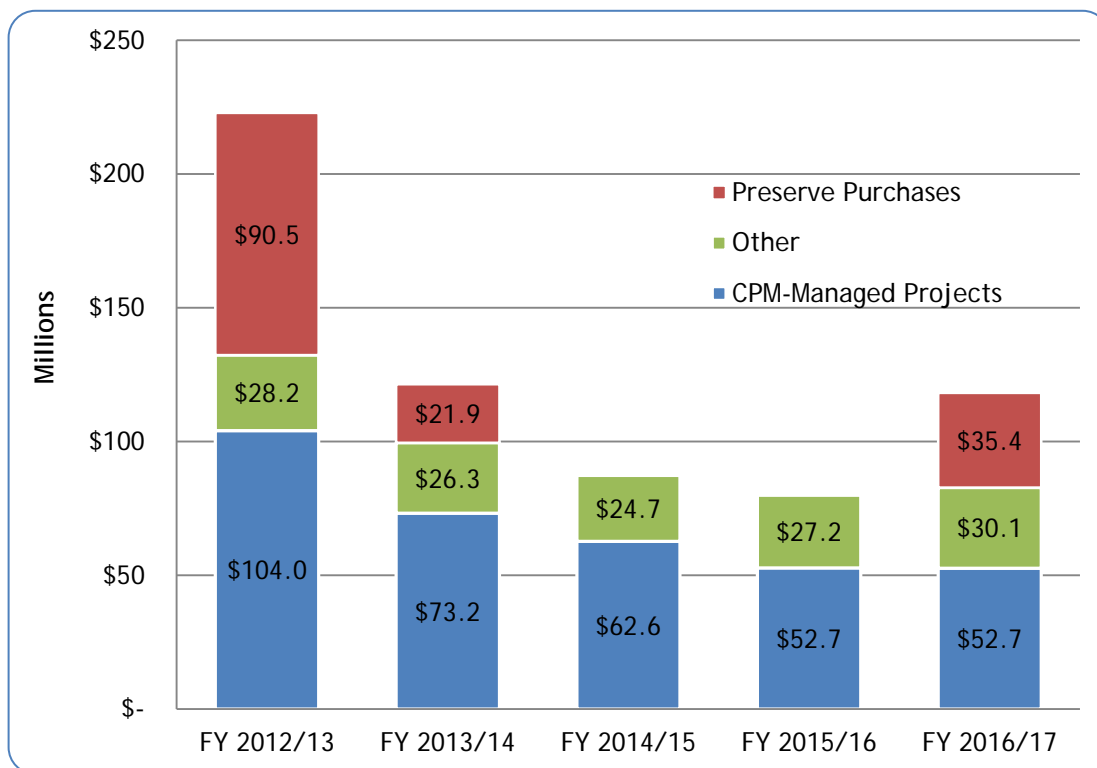
BACKGROUND

The Capital Project Management (CPM) department within the Public Works Division provides project management, design, engineering and inspection services for the City's capital improvement plan (CIP) projects. These projects are planned and built for a variety of public purposes, such as streets, stormwater management and parks. The various City departments, such as Water and Transportation, propose CIP projects for City Council approval. Once approved, CPM manages the projects and the applicable client department funds the related expenditures through the CIP program budget.

However, the CIP program budget includes some capital projects that are not managed through the CPM department. These include Preserve land purchases, technology purchases, and most Aviation department capital projects.

As shown in Figure 1, over the last 5 years, total CIP expenditures have varied between \$223 million in FY 2012/13 to \$80 million in FY 2015/16. During this same period, CPM-related projects have ranged from \$104 million to \$53 million. Preserve land purchases accounted for the largest variances, totaling from \$22 million to almost \$91 million during the 5-year period.

Figure 1. Total CIP Expenditures Compared to CPM-Managed CIP Expenditures



Note: Non-CPM projects include both Preserve Purchases and "Other" (primarily Aviation and technology).

SOURCE: Auditor analysis of SmartStream general ledger data.

Capital Project Overhead Costs

The CIP project budgets fund capital project overhead fees to pay all or part of the salaries for staff providing direct or indirect support. The overhead charges also recover all of CPM's other general expenses, such as office supplies and training.

There are four capital project overhead components; however, a project may not get charged all four types. Specifically:

- Direct-charged payroll expenses are based upon hours that CPM or department staff recorded in the timekeeping system for work performed on an individual CIP project.
- CPM Allocation is charged monthly to all projects that have CPM staff direct labor hours and is used to pay the remaining CPM departmental costs except certain Real Estate-related expenses. This includes salaries for all positions that cannot be easily tracked to specific projects, such as CPM administrative staff.

The CPM Allocation is calculated based on the proportion of CPM staff direct hours charged to each capital project in the month. As a result, the monthly amount charged to a given project varies depending on the number of projects active that month.

- CIP Allocation is charged quarterly to all capital projects and is used to pay some portion of certain staff salaries in other departments that provide CIP project support. This allocation started in FY 2008/09 during the economic downturn as a way to reduce departmental expenses in the City's General Fund.

Seven City Treasurer's Office positions, including the City Treasurer, Budget Director, and certain Accounting positions are partially funded by charges to all CIP projects, while one position, the Sr. Budget Analyst/CIP Coordinator is fully funded through the allocation. A percentage of certain other departmental staff salaries, such as the Transportation director and the Police Budget Manager, are charged only to CIP projects from their departments. Annually during the budget process, each position's percentage of time spent on capital projects is estimated.

These salaries are then apportioned as the CIP Allocation to each project based on its percentage of total project expenditures, including direct-charged payroll, within the quarter.

- Stormwater Allocation equals 15% of the Stormwater department's salary costs. This monthly allocation is only charged to stormwater projects.

Capital Project Management and Allocated Costs

Direct-charged payroll

CPM project managers and inspectors and some client department staff.

CPM Allocation

All remaining CPM payroll and other expenditures.

CIP Allocation

Percentage of salaries for certain non-CPM staff with CIP-related duties.

Stormwater Allocation

15% of Stormwater payroll, applied only to Stormwater CIP projects.

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As shown in Table 1, capital projects overhead has ranged from \$6.2 million to \$6.7 million during the last 5 years. In FY 2015/16, Water removed its positions from the CIP Allocation, and the positions began recording their actual hours for direct-charges through payroll. In FY 2016/17, Transportation similarly removed many of its positions which began recording actual hours for direct-charged payroll. These changes reduced the CIP Allocation by more than \$1.2 million since FY 2014/15, while increasing the direct-charged payroll only about \$570,000.

Table 1. Annual Project Management and Allocated Charges

	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Direct-charged payroll	\$2,313,145	\$2,058,895	\$2,303,303	\$2,699,079	\$2,870,418
CPM Allocation	\$1,710,002	\$2,076,485	\$1,997,005	\$2,167,705	\$2,162,598
CIP Allocation	\$2,193,998	\$2,113,406	\$2,306,870	\$1,552,526	\$1,048,035
Stormwater Allocation	\$127,624	\$130,893	\$107,577	\$110,329	\$104,933
Total	\$6,344,769	\$6,379,679	\$6,714,755	\$6,529,639	\$6,185,984

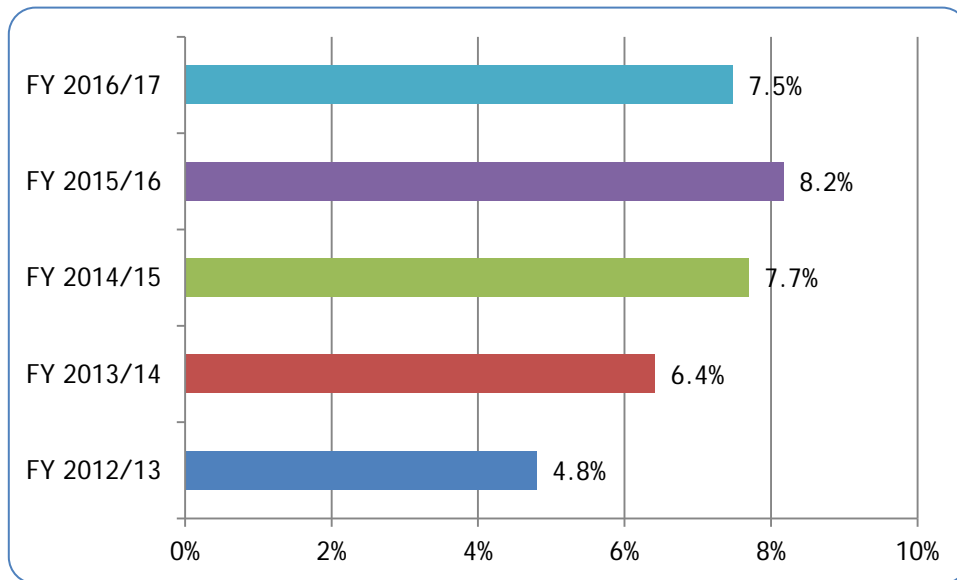
SOURCE: Auditor analysis of SmartStream general ledger data.

While only projects managed by the CPM department receive a CPM Allocation, most CIP projects, including Preserve land purchases, are charged a CIP Allocation.¹ Figure 2 on page 6 illustrates the percent of total overhead (as summarized in Table 1) compared to total CIP expenditures excluding Preserve land purchases. As shown, the overhead percentage increased about 3% between FY 2012/13 and FY 2016/17, primarily due to decreased capital spending.

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¹ The City does not apply overhead charges to projects funded by Federal grants or RICO funds.

Figure 2. Percent of Total Project Overhead to Total CIP Expenditures



Note: For this comparison, Total CIP Expenditures exclude project overhead costs and Preserve land purchases.

SOURCE: Auditor analysis of SmartStream general ledger data.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit, *Capital Projects: Project Management and Allocated Charges*, was included on the City Council-approved fiscal year (FY) 2016/17 Audit Plan as an audit of capital project overhead charges. The audit objective was to assess the methodology for and accuracy of charges assessed to capital projects for overhead costs.

To prepare for this audit, we reviewed two previous audits that were conducted by the City Auditor's Office: *Indirect Cost Allocation* Report No. 1201 and *Scottsdale Stadium Lease Agreements* Report No. 1405. We also reviewed overhead rate audits done by other local government auditors.

To increase our understanding of overhead costs in government programs, we reviewed the Office of Management and Budget (OMB) Circular A-87: Cost Principles for State, Local and Indian Tribal Governments.

To understand the methodology for overhead charges to the City's capital projects, we interviewed the Budget Director, Sr. Budget Analyst/CIP Coordinator, Budget System Integrator and City Engineer. We also interviewed the Community Services, Transportation and Water Resources division directors and applicable staff to understand how overhead costs affect various client department projects.

To accomplish the audit objective, we:

- Reviewed details of the quarterly CIP allocation and the monthly CPM and Stormwater allocation journal entries for FY 2015/16 and FY 2016/17 capital project expenditures to determine if the described methodology was being consistently applied.
- Reviewed a sample of capital projects to determine if overhead charges were budgeted at the project onset and if all project funding sources received overhead charges. For the sample, we also summarized total overhead costs charged throughout the life of the project.
- Interviewed client department staff to identify the specific projects that were not managed by CPM staff and reviewed the project expenditures to determine whether a CPM Allocation was charged.
- Recalculated the CPM Allocation using a monthly, quarterly and annual basis to determine if other allocation methods were more equitable. Additionally, we researched professional literature regarding project management and governmental accounting to identify best practices related to overhead cost allocations.
- Verified which staff positions were included in the CIP Allocation and evaluated the effect of vacant positions.
- Analyzed City general ledger data for capital project expenditures during FYs 2010/11 through FY 2016/17, including overhead trend analyses, overhead to project expenditure ratios and overhead cost components.

Our audit found that staffing levels and performance goals should be reevaluated and payroll charge detail provided to client departments. Additionally, capital project overhead could be more equitably assessed and more accurately budgeted.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from May to August 2017.

FINDINGS AND ANALYSIS

1. Staffing levels and performance goals should be reevaluated and payroll charge detail provided to client departments.

Capital project expenditures have significantly decreased in recent years, but CPM staffing levels have remained stable. In addition, certain performance goals should be reevaluated and capital project payroll support should be provided to client departments.

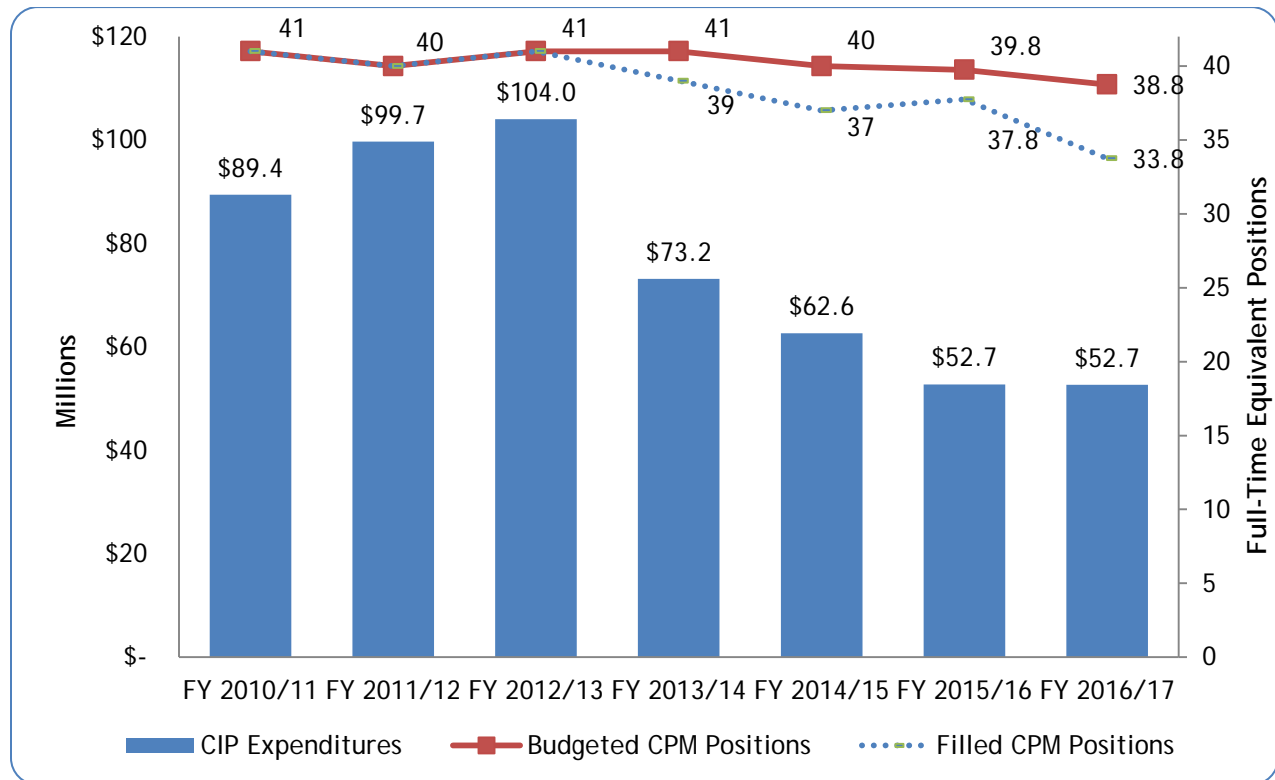
- A. While Capital Improvement Plan (CIP) expenditures have decreased by almost half since FY 2010/11, Capital Project Management (CPM) staffing has not similarly adjusted.

CPM staff provides project management services for most of the City's capital projects. These projects are charged for project manager and inspector salaries based on their reported direct project hours, plus a CPM Allocation for most other CPM expenses. Certain projects, including most Airport projects, technology-related projects, and a few others, are not managed by CPM and therefore do not pay CPM direct payroll costs and are not charged the CPM Allocation.

Since FY 2010/11, expenditures for CPM-managed projects have decreased significantly, as illustrated in Figure 3 on page 10. As also illustrated, CPM budgeted positions have not decreased comparatively although there have been a few vacant positions. Both project management positions, which are primarily direct-charged, and the support positions charged through the CPM Allocation have not been reduced to keep pace with the declining activity.

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Figure 3. Number of CPM Full-Time Equivalent Positions and CIP Expenditures



Note: CIP Expenditures do not include Preserve land purchases and other non-CPM projects. Also, filled position information is not available for the periods prior to FY 2013/14.

SOURCE: Auditor analysis of SmartStream data, Budget Development System Reports and Budget Book FTE data.

With a significantly reduced activity level, the remaining projects are getting charged higher support costs, whether through direct payroll charges or the CPM Allocation.

B. CPM management has not formalized direct bill goals for project management staff and CPM's efficiency measure in the annual budget book does not include all CPM-related costs.

- The City Engineer stated that a goal for project management staff is to direct bill 90% of their time to specific projects, but the goal is not written or defined. It also does not appear to be based on industry best practices or CPM historical data. For example, in the two most recent fiscal years, CPM's project management staff recorded 74% of their time, on average, to specific projects in FY 2015/16 and 79% in FY 2016/17.

Further, actual billed hours should be periodically reviewed against the goal to evaluate both staff productivity and reasonableness of the goal. For example, some staff recorded significantly less than 74% because they were working on projects in the development stage that did not yet have a budget. Therefore, individual goals would need to be based on each project manager's assignments. A goal that is set too high could lead project managers to bill

additional hours to projects, contributing to higher than necessary project costs.

- The efficiency measure in the budget book is described as the percentage that the CPM expense allocation is of managed project costs. However, the reported percentage excludes the CPM directly-charged payroll costs. When including these direct-charged salaries, CPM's percentage of project costs increased from the reported amount of 4.43% to 7.89% in FY 2015/16 and from 4.85% to 10.31% in FY 2016/17.

The budget book is a reference for citizens and City Council. As reported, the effect of CPM costs on Capital Projects appears lower than they actually are. To correctly interpret the data that is being reported, a reader would have to understand the cost methodologies being used and the distinction between total CPM project costs and just the CPM Allocation. Changing the efficiency measurement to "CPM costs" including direct-charged salaries will better communicate CPM's impact on capital project costs.

- C. Client departments do not receive detailed support for the billed CPM payroll expenditures. Currently, they can only see in the City's general ledger the biweekly aggregate payroll amounts that have been charged to their projects. The client departments are not able to see which CPM staff has charged time directly to their projects or the number of hours.

- For example, a client department was unaware that CPM staff charged hours to two department projects about which we inquired. They believed there was no CPM involvement with these projects. For these projects, the added cost including the associated CPM Allocation for two fiscal years totaled about \$6,000. Not having this information limits a client department's ability to monitor these project costs. Additionally, inadvertent timesheet errors such as recording an incorrect project number are unlikely to be discovered.
- Without payroll detail, the client departments are unaware of the effect overtime may have on project costs. CPM assigns inspectors to projects based on their individual expertise, and having only one inspector on a large specialized project can result in significant overtime costs.

For example, one inspector charged 214 overtime hours on a Water capital project that required evening and weekend work and had 530 total overtime hours for the fiscal year. On a different Water project, another inspector logged 299 overtime hours and had 420 total overtime hours for the fiscal year.

By not receiving detailed data for CPM hours and payroll costs, client departments are not fully aware of the impact of how services are provided. That information would aid in decisions such as whether to request additional specialized contract labor or cross-training for other inspectors.

Further, besides the additional direct salary costs for overtime, the project also pays a higher CPM allocation since those costs are apportioned to projects based on CPM's direct payroll charges.

Recommendations:

The City Engineer should:

- A. At least annually, evaluate the CPM staffing levels in relation to the capital projects that the department manages.
- B. Formalize and define the direct-bill performance standard for project managers. The City Engineer should review the performance results on a regular basis and evaluate whether the goal is effective and reasonable. Additionally, the City Engineer should report the percentage of total CPM costs to project costs as the efficiency measure in the budget book.
- C. Provide client departments with detailed data on the direct hours and payroll costs charged to their individual projects.

2. Capital project overhead could be more equitably assessed and accurately budgeted.

The CPM Allocation could be more equitable if calculated on an annual rather than monthly basis. In addition, the CIP Allocation is not based on actual salary expenditures. Further, the allocation methodologies cause difficulty in budgeting project costs and result in a large variation in the effective overhead rates.

- A. Charging the CPM Allocation based on an annualized calculation would be more equitable to the individual projects.

Currently, the CPM Allocation is charged to projects monthly based on the proportionate share of direct-project hours billed in the given month. As a result, a project that takes place in a low-activity month will pay a larger share of CPM's departmental costs. This allocation method can result in charges that are not reflective of the project's need for CPM support in relation to all other projects.

As an alternative, estimating CPM's hours for each project on an annual basis could help ensure that CPM's costs are allocated equitably. As shown in Table 2 on page 13, an annualized calculation would result in smaller projects being charged less while larger projects would likely be charged more.

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Table 2. Example Projects with Annualized CPM Allocation

Project Name	Annual Project Costs ¹	Actual CPM Allocation	Actual Percent	Recalculated Annual Amount ²	Lower (Higher) Allocation	Annualized Percent
Sports Lighting Expansion and Upgrade	\$ 37,356	\$ 12,879	34.5%	\$ 10,109	\$2,770	27.1%
Scottsdale Road Preservation Streetscape Enhancements	\$432,277	\$ 66,249	15.3%	\$ 63,975	\$2,274	14.8%
Water Distribution System Improvements	\$8,024,598	\$ 335,960	4.2%	\$ 342,677	(\$6,717)	4.3%

1 - Annual project costs do not include direct salaries, CPM allocation, CIP allocation or Stormwater allocation.

2 - The recalculated annual amount is based on the project's weighted share of the total CPM allocations for the fiscal year.

SOURCE: Auditor analysis of FY 2015/16 CPM monthly allocation worksheets.

- B. The CIP Allocation, which charges projects for a portion of City Treasurer's staff and certain other non-CPM staff, is based upon budgeted rather than actual payroll expenditures; therefore, vacancy savings are not realized.

The CIP Allocation process offsets the specified percentage of budgeted salary for employees who provide some amount of CIP project support. The process allocates that total amount proportionately to the individual CIP projects that were active during the quarter.

1. The amount that is allocated is not based on actual costs incurred. The Accounting allocation table that creates the quarterly CIP Allocation journal entries is not updated throughout the year as staffing changes are made.
 - For the positions included in the CIP Allocation, the vacancy savings that were not passed on to the capital projects totaled \$50,000 in FY 2015/16 and \$31,000 in FY 2016/17.
 - Further, these vacancy saving amounts do not include any additional salary savings due to new employees being hired at lower pay rates. For example, in FY 2016/17, one position that was budgeted at \$70,000 was subsequently filled at a salary that was approximately \$20,000 less. Since the CIP Allocation charges out 50% of this position's salary, the capital projects should have realized a \$10,000 salary savings. However, the CIP Allocation is based on budgeted salaries, so the capital projects continued to be charged based on the higher budgeted salary.
2. The CIP Allocation is not apportioned based on actual staff hours like the CPM Allocation is. Instead it is based on budgeted salary expenditures and the volume of projects per quarter. As a result, higher-cost capital projects are charged a larger CIP Allocation regardless of whether additional work is performed or not.

For example, the FY 2016/17 Preserve land purchase, which totaled more than \$35 million, was assessed about \$128,000 for CIP Allocation. This amount represented more than 12% of the total CIP Allocation for the fiscal year. Due to the lack of project time records, it is unclear whether the amount charged is representative of the staff's workload for the fiscal year. For example, when Water and Transportation removed staff positions from the CIP Allocation to charge only their direct hours (as discussed in the Background), the CIP Allocation decreased by more than \$1.2 million, while the direct-charged payroll expense only increased by \$570,000. This suggests that workload estimates may be higher than necessary and tracking actual staff hours may result in capital project savings.

- C. The allocation methodologies used result in difficulty budgeting and a large variation in the effective overhead rate.

Currently when budgeting capital projects, the CIP Allocation, CPM Allocation and direct salaries are each estimated at 4% of project costs. Therefore, projects with one type of allocation are budgeted with an added 4% and projects that will be charged all three types are budgeted with an additional 12%. However, the project percentages for actual CPM charges and CIP Allocation varied considerably in FY 2015/16 and FY 2016/17.

In FY 2016/17, individual project charges ranged from less than 1% to more than 50%. As shown in Table 3, significantly more projects had effective rates greater than 12% or less than 4% than those in the budgeted range of 4% to 12%.

Table 3. Stratification of Capital Projects Effective Overhead Rates

Effective Rate	Number of Projects	
	FY 2015/16	FY 2016/17
> 12%	63	53
4% - 12%	31	46
<4%	66	56

Note: The effective rate includes amounts for CPM direct charges, CPM Allocation and CIP Allocation divided by the project costs without these charges.

SOURCE: Auditor analysis of SmartStream general ledger detail.

Because the overhead allocation methodologies used result in widely varying costs, it is difficult for the client departments to budget the impact on their capital project funding sources.

Recommendation:

The City Engineer and CIP Coordinator should, during the annual budget process, estimate overhead costs for the fiscal year and how these costs would be allocated equitably to individual projects in proportion to the staff effort involved. These annual amounts could then be charged on a quarterly or monthly basis to cover actual expenses incurred. At the end of the fiscal year, adjusting entries can be made in order to ensure projects are expensed equitably and appropriate actual costs have been recovered.

MANAGEMENT ACTION PLAN

1. Staffing levels and performance goals should be reevaluated and payroll charge detail provided to client departments.

Recommendations:

The City Engineer should:

- A. At least annually, evaluate the CPM staffing levels in relation to the capital projects that the department manages.
- B. Formalize and define the direct-bill performance standard for project managers. The City Engineer should review the performance results on a regular basis and evaluate whether the goal is effective and reasonable. Additionally, the City Engineer should report the percentage of total CPM costs to project costs as the efficiency measure in the budget book.
- C. Provide client departments with detailed data on the direct hours and payroll costs charged to their individual projects.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION (CPM):

- A. The City Engineer will continue to evaluate staffing levels and will continue filling positions only if projected workload and known staffing changes support it.
- B. City Engineer will formalize and define the direct-bill performance standard for project managers. The City Engineer will review the results on a semi-annual basis to determine whether the goal is effective and reasonable. The City Engineer will report the percentage of CPM allocation costs to project costs as the efficiency measure in the FY18/19 budget book.
- C. The City Engineer will provide detailed data on direct hours and payroll costs to any partner department that asks for the information.

RESPONSIBLE PARTY: City Engineer

COMPLETED BY: 7/1/2018

PROPOSED RESOLUTION (City Treasurer): Although this recommendation is for the City Engineer, the City Treasurer is providing a response in support of recommendation C. The City Treasurer's Office has an existing standard practice for Scottsdale Personnel Partnership Program (SP3) staff from the various city divisions to access detailed payroll information when requested. The client department can access the detailed data on the direct hours and payroll costs charged to their individual projects by completing the "Report Security Authorization Form" that is managed by the Payroll group.

RESPONSIBLE PARTY: City Treasurer's Office

2. Capital project overhead could be more equitably assessed and accurately budgeted.

Recommendation:

The City Engineer and CIP Coordinator should, during the annual budget process, estimate overhead costs for the fiscal year and how these costs would be allocated equitably to individual projects in proportion to the staff effort involved. These annual amounts could then be charged on a quarterly or monthly basis to cover actual expenses incurred. At the end of the fiscal year, adjusting entries can be made in order to ensure projects are expensed equitably and appropriate actual costs have been recovered.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION (CPM): The City Engineer and CIP Coordinator began reviewing the assessment of the CPM allocation in early July. Once the evaluation is complete, the assessment will be adjusted accordingly.

PROPOSED RESOLUTION (City Treasurer): Estimated overhead costs, which excludes direct-charged payroll expenses by CPM and department staff, for the fiscal year and how these costs will be allocated equitably to individual projects in proportion to the staff effort involved is done annually through the budget development process. Staff will consider modifying "CPM Allocation" from a monthly basis to a quarterly basis, similar to the "CIP Allocation". Moving to an annual basis presents the following various challenges:

- Project managers will have difficulty monitoring final budgets without knowing the cost of the allocations
- Limits determining project savings
- The tracking of funding source savings or need for additional funding would be one year in arrears
- Projects would no longer be able to be closed throughout the fiscal year due to waiting until the fiscal year-end final allocation calculation was completed, which would result in the project needing to be carried forward into the next fiscal year. The current practice is to closely track projects that are 90% or more spent in order to determine project closures timely.
- If projects went over budget and required additional Council approved budget authority to balance, it would require more than a year of wait time to address.

RESPONSIBLE PARTY: City Engineer / CIP Coordinator

COMPLETED BY: 1/1/2018

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